

Committed customers or captives?

Making travel loyalty programs more valuable, relevant and differentiating

Customer loyalty programs have suffered as travel providers have been hit with multiple challenges over the past few years – bankruptcies, skyrocketing fuel prices, new imperatives from private equity owners, an increasing number of competitors and deteriorating customer satisfaction. As a result, the industry risks further commoditization, while other industries continue to innovate. Many travel customers feel “trapped,” remaining loyal primarily to avoid losing status and accumulated rewards.¹ How can travel companies replace reluctant allegiance with genuine loyalty? The answers lie in executing strategies that combine a superior customer experience, an innovative rewards program that reinforces that experience, and a supporting information engine that enables greater personalization.

In 2007, airline rewards programs had over 250 million members in the U.S., more than any other industry.² Adding in hotel, gaming, car rental and cruise programs pushes the travel industry total past an estimated 500 million members.³ Across all industries, U.S. reward program membership in 2007 reached 1.3 billion. Every U.S. household belongs to approximately 12 programs.

Today's loyalty landscape appears saturated, leaving customers overwhelmed by solicitations and unable to participate fully. IBM found that the current state of loyalty programs in the travel industry is decidedly gloomy –

particularly the typically narrow definition of customer loyalty as a rewards scheme and the lack of differentiation across companies.

Although travel pioneered loyalty programs in the early 1980s, many airlines and other travel providers have allowed them to become commoditized, while programs have proliferated in other industries and now compete for consumer mindshare.

The ultimate goal of any customer experience initiative should be to engender greater customer loyalty, even advocacy. Travelers expect, but

often do not receive, a seamless travel experience. How well providers are able to meet that expectation can either engender or hinder customer loyalty. Instead, many customer loyalty initiatives focus on traditional marketing objectives like expanding membership or driving additional promotions. This has resulted in a customer base often overwhelmed by program memberships and promotions, remaining with preferred providers mainly because they are averse to losing status and accumulated miles, not because they are true Advocates (see Figure).

Also, some airlines have discovered that loyalty programs can turn out to be worth more than the parent company itself. Travel providers are advised to continue assessing such value-creating options as divesting the program to another player or to the public.

As travel companies seek to improve their loyalty programs, they need to consider the impact of multiple trends: continuously evolving consumer expectations, rising industry consolidation and increasing competitors from adjacent market segments and geographies. While emerging technologies offer new



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REFERENCES

- 1 Ferguson, Rick and Kelly Hlavinka. "The Difference Engine: A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments." COLLOQUYtalk. August 2007.
- 2 Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." COLLOQUYtalk. April 2007.
- 3 Analysis for 2008 IBM Travel Industry Loyalty Study; Ferguson, Rick and Kelly Hlavinka. "Quo Vadis: Sizing Up the U.S. Loyalty Marketing Industry." COLLOQUYtalk. April 2007.

Customer survey responses show that satisfaction with reward programs is low.

Likelihood to keep travel provider due to rewards	64.4%	Satisfaction levels are low and are not driving loyalty participation
Disappointment level if rewards stopped	61.0%	
Satisfaction with travel provider	57.6%	
Satisfaction with value from rewards	48.0%	

Source: "The Difference Engine: A Comparison of Loyalty Marketing Perceptions Among Specific U.S. Consumer Segments," August 2007, <http://www.colloquy.com>

opportunities for improving customer loyalty, providers also will need to address the associated challenges of investing in new skills, integrating systems and improving collaboration methods.

The lack of differentiation in the current environment poses significant risks to retaining current customers and barriers to attracting new ones. Travel companies cannot afford a customer exodus to competitors with a more compelling experience or more innovative rewards programs. IBM recommends that travel companies:

- Look "beyond miles": Broaden the definition of customer loyalty.

- Choose a strategic position: Articulate the role of customer loyalty.
- Commit to invest: Target the right level of investment in loyalty program innovation.
- Strive to improve continuously: Progress along a "value continuum" to strengthen capabilities and improve customer loyalty over time.

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How can IBM help?

- **Strategy & Change/Customer Relationship Management:** Help to address changing business models, innovative customer experience, evolving loyalty program direction, and accelerating design and implementation demands.
- **Selected Industry Solutions:** Solutions to address issues in Customer Equity and Lifetime Management (CELM) and COBRA from IBM Research; diagnostics, and CRM.
- **IBM products:** Software, including InfoSphere and Cognos; business partners such as Siebel and Sabre.

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